

VZCZCXRO8908
RR RUEHLMC
DE RUEHLM #0625/01 1170611
ZNR UUUUU ZZH
R 270611Z APR 07
FM AMEMBASSY COLOMBO
TO RUEHC/SECSTATE WASHDC 5926
INFO RUCPDO/USDOC WASHDC
RUEHNE/AMEMBASSY NEW DELHI 0892
RUEHKA/AMEMBASSY DHAKA 0058
RUEHIL/AMEMBASSY ISLAMABAD 7039
RUEHKT/AMEMBASSY KATHMANDU 5124
RUEHGP/AMEMBASSY SINGAPORE 5682
RUEHKL/AMEMBASSY KUALA LUMPUR 0324
RUEHUL/AMEMBASSY SEOUL 0799
RUEHRH/AMEMBASSY RIYADH 0274
RUEHAD/AMEMBASSY ABU DHABI 0434
RUEHKU/AMEMBASSY KUWAIT 0463
RUEHLB/AMEMBASSY BEIRUT 0034
RUEHDO/AMEMBASSY DOHA 0219
RUEHKP/AMCONSUL KARACHI 2182
RUEHCG/AMCONSUL CHENNAI 7614
RUEHGV/USMISSION GENEVA 1988
RUEHC/DEPT OF LABOR WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEHLMC/MILLENNIUM CHALLENGE CORPORATION

UNCLAS SECTION 01 OF 04 COLOMBO 000625

SIPDIS

SIPDIS

DOL/ILAB FOR TINA MCCARTER
STATE FOR SCA/INS AND DRL/IL LAUREN HOLT
MCC FOR S GROFF, D NASSIRY AND E BURKE

E.O 12958: N/A

TAGS: [ECON](#) [ELAB](#) [EFIN](#) [PGOV](#) [PHUM](#) [SOCI](#) [SMIG](#) [CE](#)

SUBJECT: SRI LANKA, COUNTING ON RISING REMITTANCES, TRIES TO
INCREASE MIGRANT LABOR FORCE

REF: COLOMBO 536

1. Summary: Sri Lankans abroad formally remitted a record \$2.3 billion in 2006, up 21 percent from 2005. Higher salaries in the Middle East, where a majority of Sri Lankan migrant workers go, partially drove this rise. A higher share of remittances sent through formal, rather than informal, channels also seems to have contributed to the rise. As a major source of foreign exchange, the increase in remittances helped offset Sri Lanka's sharply higher oil import bill in 2006. The Government is counting on another large jump in remittances in 2007 to keep Sri Lanka's balance of payments positive. However, signs that migrant worker numbers are falling may make this unrealistic. End summary.

2006 REMITTANCES UP, BUT THE NUMBER OF NEW MIGRANT WORKERS DECLINED

2. Formal remittances to Sri Lanka rose by 21 percent in 2006, to a total of \$2.3 billion, according to the Central Bank. Remittances equaled about 8 percent of GDP and were the third largest source of foreign exchange for Sri Lanka, behind only garment and tea exports.

By comparison, foreign direct investment inflows to Sri Lanka in 2006 were only \$480 million, according to the Asian Development Bank. Remittances are critical to Sri Lanka's economy and to individual livelihoods. They helped keep Sri Lanka's balance of payments positive in 2006 by offsetting the 25 percent jump in Sri Lanka's oil import bill, which totaled \$2.1 billion. In war-torn areas of the country, such as the Jaffna Peninsula, remittances are almost entirely responsible for keeping families solvent.

3. According to the Sri Lanka Bureau for Foreign Employment (BFE), there are 1.4 million Sri Lankan citizens, or an eighth of the country's labor force, legally working abroad. The rate of new labor migration is slowing, however. The BFE reported that the 201,143 workers that joined their compatriots abroad in 2006 was a 13 percent drop from the number in 2005. The Association of

Licensed Foreign Employment Agencies (ALFEA), a statutory body under the BFE, says the decline was even steeper in early 2007. An ALFEA representative told Econoff that so far in 2007, the number of new outbound migrant workers had dropped more than 30 percent compared to the same time period last year. (Paragraphs 8-16 discuss possible reasons for this decline.)

14. Despite the decline in numbers of new workers going abroad, the Central Bank reported that total remittances increased in 2006, largely due to rising wages earned by workers in both the Middle East and East Asia. An International Monetary Fund study also concluded that high oil prices in 2006 drove higher wages for guest workers in net oil exporting countries.

15. Another apparent reason for the large increase in remittances was workers' growing use of formal banking methods to transfer money back to Sri Lanka. Sri Lanka's Central Bank and various private banks are encouraging this, both for commercial and policy reasons. The Central Bank's recently introduced a free non-resident banking account for new migrant workers with a USD 5 initial deposit. Local banks are tapping into this lucrative market by offering home loan and insurance products, through which workers can pay in installments through remittances. Ambassador recently encouraged the Central Bank Governor to look at the financial incentives India is offering its overseas workers for more ideas to encourage formal remittances from overseas.

16. Minister of Foreign Employment Keheliya Rambukwella told Ambassador that the 2006 \$2.3 billion in formal remittances amounted to 70 percent of total remittances and that the government is trying to tap into the remaining 30 percent. (Note: A more commonly cited figure in Sri Lanka is that formal remittances make up only 30-35

COLOMBO 00000625 002 OF 004

percent of total remittances.) Hawala and other informal money transfer systems are more widely used and have hindered the Central Bank's ability to accurately measure the volume of remittances. Technological advances may also influence workers' preferred money transfer methods. Recently, Sri Lanka's largest mobile phone company announced plans to launch telecommunications-facilitated fund transfers. Visa International is also planning to introduce 'card to card' online transfers.

MIDDLE-EAST: WORKING CONDITIONS DETERING MIGRANTS

17. Approximately 90 percent of Sri Lanka's migrant labor force works in the Middle East, generating about 80 percent of total remittances. They are highly concentrated in Saudi Arabia and Kuwait, followed by the United Arab Emirates, Qatar, and Lebanon. 70 percent are unskilled laborers, mostly housemaids. Among the housemaids, 60-70 percent are Muslims who are considered best able to cater to their employers' requirements. In 2006, the number of workers to Saudi Arabia dropped 31 percent, while the number headed for Kuwait fell 17 percent.

18. The causes of the decline in numbers of Sri Lankans working in the Middle East are difficult to pinpoint. The official view is that wages for unskilled workers in Sri Lanka are catching up to rates in the Middle East. A BFE official told local press, "We find that some of the maids in Colombo earn between 95-100 dollars, so there is less incentive to travel abroad" for salaries between 100 and 125 dollars per month. Political violence and poor working conditions are likely significant reasons for the decline. The Sri Lankan media has extensively covered the hardships workers face in the region, including the following: the stranding of 50,000 Sri Lankan workers during the 2006 Lebanon war; a January 2007 report that a group of Sri Lankan migrant workers were duped by a recruitment agency into traveling to Iraq; the March 2007 news that Saudi Arabia beheaded four Sri Lankan laborers charged with armed robbery; and widespread physical abuse and breaches of contracts.

19. There may also be decreasing demand in some countries for Sri Lankan workers. The ALFEA rep told Econoff that Sri Lankans have gained a reputation in the region for insisting on reasonable working conditions and for breaking their contracts to return to Sri

Lanka (where working conditions generally are good) if their expectations are not met. This is a major concern for Sri Lanka's manpower agencies as each returnee not only produces a monetary loss, but also damages the reputation of the associated agency. According to ALFEA, Middle Eastern countries now prefer importing migrant workers from Bangladesh, India, and Ethiopia over those from Sri Lanka. An apparent illustration of this was the April decision by the Abu Dhabi government not to hire Sri Lankan workers, after 43 workers in a military textile factory were fired after allegedly going on strike to demand the removal of a female Sri Lankan supervisor.

EAST ASIA: FEWER SRI LANKANS GOING THERE EITHER

¶10. The number of Sri Lankan migrant workers, mainly skilled laborers, in Malaysia and Singapore has declined sharply due to new regulations by those governments and to workers' unmet demands for better working conditions. Malaysia experienced the largest decrease since January 2007, with almost 80 percent of Sri Lankan migrant workers returning home. In 2005, there were approximately 4,000 skilled laborers, primarily male; currently there are approximately only 500, according to ALFEA. ALFEA cites the Sri Lankan Embassy in Malaysia reporting that Malaysian employers were violating workers' contracts, mainly by shorting workers on their regular wages and overtime payments. The Malaysian government did

COLOMBO 00000625 003 OF 004

little to prevent such abuses, especially those perpetrated by unregulated Malaysian labor procurement agencies that supply workers to private companies.

¶11. There was a 70 percent decline in new migrant workers to Singapore since the beginning of this year, as compared to the same time period in 2006. Currently there are 10,000 Sri Lankans working in Singapore, but since January 2007, less than 300 new workers have migrated. Singapore's new requirement that workers pass a mandatory English written exam upon arrival appears to be the cause of the sudden drop. South Korea has become the one bright spot for Sri Lankan workers; minimum wage for laborers there is between \$1,000-1,500 per month, against the \$200-250 or less offered in the Gulf. Presently there are 15,000 unskilled Sri Lankan laborers in South Korea and South Korea has agreed that Sri Lanka can send 11,000 more.

EFFORTS TO INCREASE MIGRANT WORKER NUMBERS AND PAY FACE CHALLENGES

¶12. To more effectively administer Sri Lanka's migrant labor force, in January 2007 the government created a new ministry to house the Bureau of Foreign Employment -- the Ministry of Foreign Employment Promotion and Welfare, separate from the Ministry of Labour Relations and Manpower. The BFE's objectives remain to administer Sri Lanka's 774 licensed manpower agents, to work with foreign governments to eliminate exploitation of workers by illegal recruitment agencies, to improve working and living conditions, and to increase minimum wages.

¶13. Minister Rambukwella informed Ambassador that the Ministry is working to slowly reduce the number of unskilled laborers going overseas, especially to the Gulf, by approximately 10 percent next year, while still raising total remittances to \$3 billion by sending more skilled and semi-skilled laborers. To encourage overseas employment of skilled laborers, the government plans to establish institutes of specialized training under the National Vocational Qualification System, with a focus on medical and computer education. Targeted regions and countries to send skilled laborers include the Gulf, Israel, Australia, Italy, Japan, South Korea, and the United States. In Italy, for example, there are approximately 50,000 legal Sri Lankan workers and another 50,000 illegal.

¶14. In the Gulf, the government is trying to increase the number of skilled and semi-skilled workers, while still protecting the current unskilled labor force there. One initiative to educate outgoing migrant workers is a plan by the Ministry of Foreign Employment to provide training to unskilled workers before they depart to the

Gulf. A three-day course would inform them of local laws and their rights respective to the country of arrival. Further, the government also believes it can negotiate an increase in housemaids' minimum wage in the Gulf from \$150-175 a month. Minister Rambukwella told Ambassador that Filipino housemaids in the Gulf receive a minimum \$400 a month; Rambukwella sees this as an opportunity for Sri Lankan housemaids to undercut that price while still increasing their current monthly salary. Ambassador emphasized to Minister Rambukwella the importance of vocational training, particularly noting that the United States has a huge need for nurses and semi-skilled laborers in the hotel and construction industries. The Minister agreed, noting that Sri Lanka had received inquiries from American hotel and construction contractors.

¶15. Despite these initiatives, Sri Lanka's poorly coordinated labor policies are contributing to the decline of migrant labor. On 8 March, to coincide with International Women's Day, the Minister of Child Development and Women's Empowerment proposed to restrict women with children under five years old from working abroad. Mothers of children over five would have to obtain approval from district

COLOMBO 00000625 004 OF 004

officials. The proposal elicited criticism for denying women the right to choose where they work and for impeding poor mothers' ability to provide for their families. Although these proposals have not yet been implemented, labor agencies told us that they have created the misimpression that women with young children are already banned from working abroad, and have therefore reduced the numbers of such applicants.

¶16. A relatively healthy employment environment in Sri Lanka is also mitigating the government's effort to increase migrant worker numbers. The economy grew by over 7 percent in 2006 (reftel), with the agriculture, industry, and services sectors all strong. Additionally, the government continued hiring large numbers of civil servants specifically to reduce unemployment among recent college graduates. The impact of both these developments was a drop in the official unemployment rate in Sri Lanka from 7.3 percent in 2005 to 6.5 percent in 2006. According to ALFEA, furthermore, many workers with employable skills prefer to stay in Sri Lanka despite the somewhat lower pay compared to working overseas. This is reflected by the fact that so far this year numbers of skilled laborers departing to work abroad have not increased.

COMMENT: COUNTING ON REMITTANCES THAT MAY NOT HATCH

¶17. In 2006, the \$2.3 million in remittances helped keep Sri Lanka's balance of payments in the black. In 2007 and ensuing years, as the government begins to repay a bulge of short term loans created by tsunami debt deferral and recent debt financing, it hopes increased

SIPDIS
remittances will continue to keep the balance of payments positive. For 2007, the government is optimistically forecasting remittances to again rise by a third, to \$3.0 billion. For this to happen, Sri Lankan migrant workers will either have to earn a lot more or else significantly increase their use of formal channels for their remittances. This seems unlikely given the lower number of workers going out and the fact that informal remittances are still generally cheaper than formal transfers.

BLAKE